

# AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND COUNCIL OF NOKENG TSA TAEMANE MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Nokeng Tsa Taemane Municipality, statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting officer's report, as set out on pages xx to xx

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South Africa Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act (Act No 56 of 2003) (MFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Nokeng Tsa Taemane Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended are prepared, in all material respects, in accordance with the SA Standards of GRAP and in the manner required by the MFMA.

### **Emphasis of matters**

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Significant uncertainties**

9. With reference to note 27 to the financial statements, the Nokeng Tsa Taemane Municipality is a defendant in the various lawsuits. The ultimate outcome of the matters cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

### **Restatement of corresponding figures**

10. As disclosed in note 32.2 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of an error discovered during 30 June 2010 in the financial statements of Nokeng Tsa Taemane Municipality at, and for the year ended, 30 June 2009.

### **Material losses**

11. As disclosed in Note 26.12 to the financial statements, material losses to the amount of R5 492 463 were incurred as a result of water and electricity losses.

### **Material under spending of the budget**

12. As disclosed in the note 6 to the financial statements, the municipality has materially under spent conditional grants to the amount of R6 162 783. As a consequence, the municipality has not achieved the objectives of the grant.

### **Going concern**

13. As disclosed in note 26.10 to the financial statement, the municipality will be disestablished and all its assets and liabilities transferred to Tshwane Metropolitan Municipality in terms of notice 1866 of 2010 as published in the Provincial Gazette Extraordinary. There is material uncertainty regarding the date of disestablishment since it is still to be announced by the President of the Republic of South Africa. Furthermore, the financial statements indicates the municipality incurred a net loss of R 9 499 538 during the year ended 30 June 2010 and, as of that date, the entity's current liabilities exceeded its total assets by R 62 440 774.

### **Additional matter**

14. I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

15. The supplementary information set out on pages xx to xx of the financial statements is presented as additional information. There is no requirement to audit these schedules and therefore I have not audited these schedules and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

16. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws MFMA and Municipal Systems Act, 2000 (MSA) and financial management (internal control).

#### **Predetermined objectives**

17. Material audit findings on the report on predetermined objectives, as set out on pages xx to xx are reported below:

- **Non compliance with regulatory and reporting requirements**  
The reliability of the performance information as set out on pages xx to xx of the annual report could not be verified, since the information was not received in time for audit purposes.

#### **Compliance with laws and regulations**

#### **Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

#### **Expenditure was not paid within set parameters in accordance with applicable laws and regulations:**

18. Contrary to the requirements section 65(2) of the MFMA, the accounting officer did not take all reasonable steps that certain money owing by the municipality was paid within 30 days of receiving the relevant invoice or statement.

#### **Financial statements were subject to material misstatements**

19. Contrary to the requirements of section 122 (1) of the MFMA, the municipality did not prepare financial statements in accordance with the legislative requirements as the financial statements submitted for audit on 30 August 2010 did not fairly present the state of affairs of the municipality as there was a material amendment made to the provision for bad debts and general expenditure arising from the audit.

## INTERNAL CONTROL

20. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, MSA, Municipal Planning and Performance Management Regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control.
21. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations:

- **Leadership**

No matters to report.

- **Financial and performance management**

1. The annual performance report was not submitted for auditing as per the legislated deadlines.
2. Systems are not appropriate over compliance with MFMA with regard to payment of certain suppliers within 30 days from receipt of the invoice.

- **Governance**

No matters to report.

## OTHER REPORTS

### Investigations

22. An investigation was conducted by an independent consulting firm on request of the municipality. The outcomes of this investigation are currently being dealt with by the municipality.

*Auditor-General*

Johannesburg

30 November 2010



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*